

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

In the Matter of the Application of)

HOH UTILITIES, LLC)

DOCKET NO. 05-0024

For Review and Approval of Rate)
Increases and Revised Rate)
Schedules.)
_____)

DECISION AND ORDER NO. 22286

Filed Feb. 16, 2006
At 9:30 o'clock A.M.

Karen Higashi
Chief Clerk of the Commission

ATTEST: A True Copy
KAREN HIGASHI
Chief Clerk, Public Utilities
Commission, State of Hawaii.

K. Higashi

RECEIVED
2006 FEB 21 A 8:57
DIV. OF CONSUMER & UTILITY
DEPT. OF PUBLIC UTILITIES
COMM. OF HAWAII
STATE OF HAWAII

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

In the Matter of the Application of)

HOH UTILITIES, LLC)

For Review and Approval of Rate)
Increases and Revised Rate)
Schedules.)
_____)

Docket No. 05-0024

Decision and Order No. 22286

DECISION AND ORDER

By this Decision and Order, the commission approves the Stipulation of Settlement Agreement in Lieu of Further Discovery and Rebuttal Testimonies, filed on September 26, 2005 ("Stipulation"), by HOH UTILITIES, LLC's ("Applicant") and the DIVISION OF CONSUMER ADVOCACY, DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS ("Consumer Advocate").¹

In doing so, the commission approves an overall rate increase of \$95,678, or approximately 23.3 percent based on a revenue requirement of \$505,978 and operating expenses of \$505,967 for the 2005 calendar test year.

The commission also approves the establishment of an Automatic Power Cost Adjustment Clause ("APCAC") to provide for fluctuating electricity prices, and revisions to Applicant's Rules and Regulations.

¹Pursuant to Hawaii Revised Statutes ("HRS") § 269-51 and Hawaii Administrative Rules ("HAR") § 6-61-62, the Consumer Advocate is an *ex officio* party to all commission proceedings. Applicant and the Consumer Advocate are collectively referred to as the "Parties."

I.

Background

A.

Applicant

Applicant is a Hawaii limited liability company, which provides wastewater treatment services to bulk and individual customers in the Poipu area of Kauai, including the Kauai Sheraton Resort, Marriott Resort, Kiahuna Shopping Village, Kiahuna Tennis Club, Kiahuna Golf Clubhouse, Kiahuna Golf Village Subdivision, Kiahuna Plantation Condominium, Plantation Gardens Restaurant, and the Poipu Kapili Condominium. Applicant obtained its certificate of public convenience and necessity ("CPCN") to operate its wastewater treatment services pursuant to Decision and Order No. 17562, filed on February 25, 2000, in Docket No. 99-0343.² Applicant's sole member is Mr. Ian Kagimoto, who is presently the general manager of the Poipu Water Reclamation Facility (the "Facility"). Mr. Kagimoto has full operational authority to operate and maintain the Facility.³

At the time of the Application, Applicant owned an undivided 83.33% interest in the Facility, while CTF Hotel Sewage Treatment Corporation ("CTF") owned the remaining undivided one-sixth (16.67%) interest in the Facility. By Amended and

²HOH obtained its CPCN through a transfer from Poipu Wastewater Corporation.

³Mr. Kagimoto is also a principal of Aqua Engineers, Inc., which currently operates twenty-three (23) wastewater facilities throughout the State of Hawaii.

Restated Application, filed on March 8, 2005, in Docket No. 04-0340, Applicant requested commission approval to allow it to acquire CTF's interest in the Facility. By Decision and Order No. 22117, filed on November 10, 2005, the commission approved Applicant's request to expand its existing service area and to allow Applicant to acquire the remaining interest in the Facility from CTF.

B.

Application

On January 31, 2005, Applicant filed an application requesting commission approval for a 2005 test year⁴ revenue increase of \$173,253, pursuant to HRS § 269-16.⁵ Applicant also requested that the commission waive the requirement in HAR § 6-61-75 that audited financial statements be submitted with its Application, pursuant to HAR § 6-61-92.

Applicant served copies of the Application on the Consumer Advocate. By Statement of Position Regarding Completeness of Application, filed on February 18, 2005 ("Statement of Completion"), the Consumer Advocate stated that it

⁴By Order No. 21498, filed on December 20, 2004, in Docket No. 04-0094, the commission waived the HAR § 6-61-88(3)(A) requirement and ordered that Applicant would be able to use a 2005 calendar test year in a rate filing to be made by January 31, 2005.

⁵HOH's Application, Exhibits HOH 1 through HOH 11, Verification and Certificate of Service ("Application").

did not object to the completeness of the application, pursuant to HRS § 269-16(d).⁶

By Order No. 21729, filed on April 11, 2005 ("Order No. 21729"), the commission, among other things, approved Applicant's request to submit its unaudited balance sheet in lieu of the audited balance sheet required by HAR § 6-61-75(b)(1), subject to the condition that Applicant make available for review all documentation in support of its financial statements, including all books and records. In addition to approving Applicant's request to accept its unaudited balance sheet, the commission recognized the filing date of Applicant's completed Application as January 31, 2005, and ordered the Parties to initiate the discovery process and to submit a stipulated procedural schedule to the commission.⁷

⁶As discussed in Order No. 21729, the Consumer Advocate also argued that Applicant had not strictly complied with the requirements of Subchapter 6 of the commission's Rules of Practice and Procedure in that its financial statements for 2003-2005 did not reflect any debt, and thus, the Consumer Advocate assumed that Applicant has no outstanding debts. In its Statement of Completion, the Consumer Advocate recommended that in the future, Applicant clearly describe its financial situation, rather than assume that the information can be arrived at by a review of Applicant's financial statements.

⁷On May 3, 2005, the commission held a public hearing on the Application at the Kauai High School Library, in Lihue, Kauai, pursuant to HRS §§ 269-12 and 269-16.

C.

Stipulated Issues

On May 16, 2005, the Parties submitted a stipulated procedural order, which was filed by the commission on May 26, 2005, as Stipulated Procedural Order No. 21846 ("Stipulated Procedural Order").

As set forth in the Stipulated Procedural Order, the Parties agreed to the following stipulated issues:

1. Is the HOH proposed rate increase reasonable?
 - a. Are the proposed tariffs, rates and charges just and reasonable?
 - b. Are the revenue forecasts for the Test Year ending December 31, 2005 at present rates and proposed rates reasonable?
 - c. Are the projected operating expenses for the Test Year reasonable?

D.

Discovery

In the Stipulated Procedural Order, the Parties also agreed to a schedule for discovery.⁸ The following discovery was

⁸Pursuant to HRS § 269-16(f), the commission shall "[m]ake every effort to complete its deliberations and issue a proposed decision and order within six months from the date the public utility files a completed application with the commission." However, due to the scheduling of the public hearing, the Consumer Advocate's existing caseload and Applicant's own schedule, the Parties contemplated an end date for discovery beyond six (6) months from the filing of the Application. Thus, Applicant waived the requirement that the commission issue a proposed decision and order within six (6) months from the filing date.

conducted: (1) the Consumer Advocate served information requests ("IRs") on Applicant on May 24, 2005; (2) Applicant filed responses to the Consumer Advocate's IRs on June 8, 2005 ("Response to IRs"); (3) the Consumer Advocate filed supplemental IRs ("SIRs") on Applicant on June 22, 2005; (4) Applicant filed responses to the SIRs on July 7, 2005; and (5) Applicant filed supplemental responses to the SIRs on July 20, 2005.

On July 21, 2005, the Consumer Advocate filed its Direct Testimony and Exhibits ("Direct Testimony") and an addendum to its Direct Testimony on July 22, 2005.⁹

On September 26, 2005, the Parties filed a Stipulation of Settlement Agreement in Lieu of Further Discovery and Rebuttal Testimonies ("Stipulation").

II.

Discussion

HAR § 6-61-35 provides that "[w]ith the approval of the commission, any procedure in a contested case may be modified or waived by stipulation of the parties and informal disposition may be made of any contested case by stipulation, agreed settlement, consent order, or default." HAR § 6-61-35.

At the outset, the commission views the Stipulation as an attempt by the Parties to resolve all issues in this docket

⁹On August 22, 2005, the Parties filed a Stipulation Concerning Regulatory Schedule seeking an extension of the date on which Rebuttal Testimonies or a Settlement Agreement was due, to September 9, 2005. On September 9, 2005, the Parties filed a Second Stipulation Concerning Regulatory Schedule in which the parties revised the September 9, 2005 date to September 26, 2005.

without the need for further discovery and the filing of rebuttal testimonies, pursuant to HAR § 6-61-35. The commission also recognizes the Stipulation to be comprised of proposed agreements of the Parties, which constitute a formal confirmation by them of a resolution of all issues in this docket. Specifically, the Stipulation states, in relevant part, that:

The Parties agree that the provisions of this Stipulation are binding as between them with respect to the specific issues and matters to be resolved in the subject docket. In all respects, it is understood and agreed that the settlement positions evidenced in this Stipulation represent compromises by the Parties to fully and finally resolve all issues in the subject docket on which they had differences for the purpose of simplifying and expediting this proceeding, and are not meant to be an admission by either of the Parties as to the acceptability or permissibility of any matter stipulated to herein. The Parties reserve their respective rights to proffer, use and defend different positions, arguments, methodologies, or claims regarding the matters stipulated to herein in other dockets or proceedings. Further, the Parties agree that nothing contained in this Stipulation shall be deemed to, nor be interpreted to, set any type of precedent, or to be used as evidence of either Parties' position in any future regulatory proceeding, except as necessary to enforce this Stipulation.

Stipulation at 5.

The Stipulation also states that "[e]ach provision of the Stipulation is in consideration and support of all other provisions, and is expressly conditioned upon acceptance by the [c]ommission of the matters expressed in this Stipulation in their entirety."¹⁰

¹⁰Stipulation at 22.

In considering the Stipulation, the commission has the independent obligation, after reviewing such Stipulation, to determine if its provisions are reasonable and in the public interest. While the commission strives to respect the basic underlying agreements and conditions made by the parties as expressed in the Stipulation, it must, given its statutory responsibilities, undertake an independent review to, among other things, ensure that the interests of the public (particularly Applicant's customers affected by the rate increase) are protected.

Upon its review, the commission finds the proposed agreements and conditions set forth in the Parties' Stipulation to be reasonable and in the public interest. The commission also finds that its approval of the Stipulation in its entirety will assist in expediting and facilitating the ratemaking process. Accordingly, the commission concludes that the proposed agreements and conditions set forth in the Parties' Stipulation should be approved in their entirety and made a part of this Decision and Order.¹¹

The Parties should be advised, however, that commission review and approval of the Stipulation is based primarily on the Parties' representation that there are no remaining differences in this proceeding and that the Parties desire to resolve and dispose of the entire case by means of the Stipulation.

¹¹The Parties note that "[i]n the event the [c]ommission declines to adopt parts or all of the matters agreed to by the Parties and as set forth in this Stipulation, the Parties reserve the right to pursue any and all of their respective positions through further negotiations and/or additional filings and proceedings before the [c]ommission." See Stipulation at 22.

Accordingly, the commission's approval of the Stipulation in its entirety shall not be used or cited by any party or person as precedent in any other proceeding before the commission or before any court of law for any purpose, except in furtherance of the purposes and results of the Stipulation. As discussed below, the commission will from time to time state in this Decision and Order that the stipulated estimates are either reasonable or acceptable. Such statements shall not be read or construed as necessarily approving the methodology by which the stipulated estimates were derived, and the commission will, therefore, not be bound by the stipulated estimates in future rate cases.

A.

Stipulated Revenues

Applicant originally sought a test year revenue requirement of \$582,737. In its Direct Testimony, the Consumer Advocate proposed a test year revenue requirement amount of \$449,482. The Parties settled on a test year revenue amount of \$505,978. This results in a Test Year revenue increase of \$95,678, or 23.3 percent (23.3%). Applicant is not seeking any rate of return on its rate base, but seeks only to recover its operating expenses.

In determining the Test Year revenue requirement, the Parties first had to determine the Test Year revenues at present rates. Applicant's Test Year revenues based on present rates amounted to \$409,484, which consisted of revenues for wastewater service provided to Applicant's residential and

commercial customers. The Consumer Advocate's proposed Test Year revenue requirement was \$410,300, different only in the Consumer Advocate's recognition of two (2) additional new residential customers not reflected in Applicant's test year forecast. Applicant adjusted its customer count by two (2), from sixty-seven (67) to sixty-nine (69), which eliminated the difference between Applicant's and the Consumer Advocate's present rate revenue projections.

Based upon the commission's review, it finds the stipulated Test Year revenue requirement of \$505,978 to be reasonable for the Test Year.

B.

Stipulated Operating Expenses

The Parties have agreed on an amount of \$505,967 for Applicant's Test Year total operating expenses, including revenue taxes. A breakdown of each item is as follows:

1. Electricity

Applicant proposed a Test Year expense amount for electricity charges of \$178,208 based upon historical 2004 monthly electricity usage and kilowatt hour usage for each of three (3) electric meters associated with its sewer operations.¹² The Consumer Advocate, in its Direct Testimony, proposed an amount of \$154,732 for electricity charges based on the average

¹²The three (3) meters are the main meter at the Facility with separate meters at Pump Station 1 near the Marriott Hotel and Pump Station 2 near the Sheraton Hotel. See Response to IRS-9a.

electrical usage for the three (3) meters, noted above, for the years 2001-2003.¹³

During settlement discussions, Applicant and the Consumer Advocate agreed to use the *pro forma* amount of 561,335 kilowatt hours for the Facility for 2004. This amount was then multiplied by the average electrical expense rate for the last six (6) months of 2004 for each of the meter stations noted above. The electrical expense of \$163,669 was arrived at and agreed to by the Parties.

The commission finds the Parties' methodology to be reasonable and also finds the Test Year electricity charges to be appropriate.

2. Water Charges

Applicant proposed a Test Year expense amount of \$5,744 for water charges in its Application. The Consumer Advocate did not object to this amount, nor did it recommend a different amount in its Direct Testimony.

The commission finds the Parties' stipulation on Test Year water charges to be reasonable.

¹³The Consumer Advocate chose these years for an average because it believed that the electrical usage at the Facility for the year 2004 was higher than Applicant accounted for in its downward adjustment of the electrical usage. Applicant stated that replacement, refurbishment and expansion work at the Facility created an increase in kilowatt usage during the second half of 2004 and thus required an adjustment in the monthly kilowatt use to 54,000 kilowatt hours. The Consumer Advocate does not agree that the resulting adjustment was an accurate reflection of electricity usage. See Consumer Advocate's Direct Testimony at 19-25 for a discussion of this issue.

3. Professional Fees - Aqua Engineers, Inc.

In its Application, Applicant proposed a Test Year expense amount of \$232,428 for professional fees incurred by Aqua Engineers. The Consumer Advocate questioned the reasonableness of the twenty four percent (24%) increase in Aqua Engineers' contract fee given Applicant's failure to provide sufficient information to justify the increase. In discussions with the Consumer Advocate, Applicant agreed to revise the fees for Aqua Engineers and stipulated to a Test Year expense amount of \$216,924. Upon review, the commission finds this stipulated amount for the test year to be reasonable.

4. Professional Fees - Other

Applicant proposed a Test Year expense amount of \$16,000 for "professional fees - other," which includes legal and accounting fees. The Consumer Advocate did not refer to this amount in its Direct Testimony. Thus, for purposes of this Stipulation, the Parties stipulated to a Test Year expense amount of \$16,000 for "professional fees - other." The commission finds this stipulated amount to be reasonable.

5. Insurance

In its Application, Applicant proposed a Test Year expense amount of \$32,149 for insurance expense. This projection was based on the actual premiums for the years 2004/2005, with an increase to cover property and general liability expenses for the Phase II Plant Addition valued at \$2,540,000. The Consumer Advocate disagreed with using the Phase II Plant Addition valuation as a basis for projecting the Test Year insurance

expense. It recommended instead that the valuation amount be divided in half for purposes of a Test Year value. Consequently, the Consumer Advocate recommended, and Applicant accepted, a Test Year valuation of \$1,270,000 for the Phase II Plant Addition, with insurance expenses being \$25,369.

The commission finds the valuation appropriate and the stipulated expense of \$25,369 for insurance to be reasonable.

6. Management Fees

Applicant proposed a Test Year expense amount of \$24,000 for management fees, an increase from \$9,000 for the 2004 test year, based upon Applicant's claim that its management duties over the Facility had increased. The Consumer Advocate disagreed with the proposed increase in management fees. It asserted that Mr. Kagimoto was already providing oversight of the Facility and that the increase could not be justified by Applicant. Instead, the Consumer Advocate proposed the sum of \$9,217, the management fee approved by the commission in Decision and Order No. 16079, filed on November 14, 1997, in Docket No. 7265. During discussions between Applicant and the Consumer Advocate, Applicant provided additional information regarding the duties performed by Mr. Kagimoto on behalf of Applicant. Based on this additional information, the Consumer Advocate and Applicant agreed to an amount of \$15,600 for management expense related to Mr. Kagimoto's time.¹⁴

The commission finds the amount stipulated to by the Parties for management fees to be reasonable.

¹⁴The amount works out to be \$40.00 an hour for 7.5 hours of oversight of the Facility a week.

7. Repair and Maintenance

Applicant proposed a Test Year expense amount of \$5,200 for repair and maintenance. The Consumer Advocate did not comment on this amount in its Direct Testimony, and as such, the Parties have stipulated to this amount for repair and maintenance fees.

The commission finds the amount of \$5,200 for repair and maintenance to be reasonable.

8. Rent

Applicant proposed a Test Year expense amount of \$3,265 for office rent. The Consumer Advocate did not refer to this expense in its Direct Testimony. The Parties, thus, agreed to a Test Year expense of \$3,265 for office rent.

The commission finds the Parties' stipulated amount for rent to be reasonable.

9. Rate Case Amortization

Applicant proposed a Test Year amount for rate case amortization of \$35,000, which was based on a total cost of \$175,000 amortized over a five (5) year period. The Consumer Advocate expressed concerns with Applicant's proposed costs for preparation and filing related to the hearing and briefing phase of the rate case, and with Applicant's proposed amortization period of five (5) years.

Based upon Applicant's representation to the Consumer Advocate that the proposed \$80,000 in preparation and filing costs was to support applications in other docketed matters other than the instant docket, the Consumer Advocate

recommended removing \$28,000 of the projected costs. The proposed hearing and briefing cost of \$45,000 was also removed due to the fact that many water and wastewater utility rate cases are resolved without the necessity of holding an evidentiary hearing and submitting post-hearing briefs. Based on these adjustments and a proposed amortization period of eight (8) years, the Consumer Advocate proposed an amortized rate case expense of \$13,056.

Applicant agreed to remove the expenses that would be associated with the hearing and briefing phase of the instant docket provided a settlement was reached, as well as the additional reductions proposed by the Consumer Advocate. For its part, the Consumer Advocate agreed to use a five (5)-year amortization period in its calculations. Thus, the Parties agreed to a Test Year expense amount for rate case amortization of \$20,890.

The commission finds the stipulated rate case amortization expense amount agreed upon by the Parties to be reasonable.

10. Other Expenses

Applicant proposed a Test Year expense amount for other expenses (office supplies and expenses) of \$1,000. The Consumer Advocate did not object to, nor did it propose any adjustments to this amount. As such, for purposes of the Stipulation, the Parties agreed to a Test Year expense amount of \$1,000 for other expenses (office supplies and expenses).

The commission finds the stipulated amount for other expenses to be appropriate.

11. Depreciation and Amortization of CIAC

Applicant proposed a Test Year depreciation expense amount of \$209,095 with a corresponding amortization of CIAC amount of negative \$196,502, resulting in a net proposed depreciation expense of \$12,593. The Consumer Advocate asserted that if no plant or rate base is a part of this proceeding, then no related depreciation or amortization elements should be allowed. For purposes of this settlement, Applicant accepted the Consumer Advocate's recommendation and removed the depreciation and amortization expenses from this proceeding.

The commission finds the removal of depreciation and amortization expenses for the Test Year to be reasonable.

12. Revenue Taxes

Applicant and the Consumer Advocate proposed different Test Year amounts for revenue taxes based on their differing revenue projections at present and proposed rates. Based on the stipulated agreement, which resolved the differences between the parties, the amount settled on for revenue taxes is \$32,306 at proposed rates for the Test Year.

The commission finds this stipulated amount for Test Year revenue taxes to be reasonable.

C.

Rate Base

Applicant is not seeking any rate base treatment for any plant assets in this proceeding. Because Applicant is not seeking rate base treatment or any return on rate base, the Consumer Advocate did not address the issue of rate base in this proceeding. The Parties thus stipulate that for purposes of this docket, a determination regarding Applicant's rate base is not necessary.

The commission finds the Parties' stipulation on rate base appropriate in the instant proceeding.

D.

Rate of Return

As noted above, Applicant is not seeking any return on its rate base. The Parties agree that this shall not be deemed to set any precedent against Applicant in seeking a return on its rate base in any future proceedings.

E.

Rate Design

Applicant seeks to standardize the rates charged to its customers. Applicant's proposed rates are meant to allow for different rates until Applicant's customers, e.g., hotels and resorts, become fully operational, at which point the rates would increase to the full rate charged to Applicant's other customers.

The Consumer Advocate expressed its concern over the proposed across-the-board 42.32 percent (42.32%) increase asserting that (1) the existing rates do not properly allocate costs to each customer class, (2) the rates do not provide for a flat and measured rate for each customer class, and (3) the proposed rates do not take into account the cost to treat high strength wastewater flows from commercial customers, e.g., restaurants. Given that a cost of service study was not done by Applicant to determine whether the existing rates were reasonable, the Consumer Advocate recommended that Applicant be allowed to implement an across the board increase of 9.5 percent (9.5%), based on the Consumer Advocate's recommended increase in revenue requirement. The Consumer Advocate asserts that this will allow Applicant to freeze its rates until it is able to gather data that will allow for an assessment as to the appropriate changes required to implement cost based rates.

During settlement discussions, the Parties concentrated their efforts on creating an acceptable rate design to provide Applicant a reasonable opportunity to earn its Test Year revenue requirement of \$505,978. In doing so, the Parties agreed to the following residential, multi-family, commercial and other customer rates, as follows:

<u>Customer Class</u>	<u>Monthly Charge</u>	<u>Base Rate Per 1,000 gal.</u>	<u>%Increase</u>
Residential	\$42.13		23.3%
Multi-family	\$31.45		23.3%
Commercial	\$13.57	\$1.3072	23.3%
VPI	\$1,603.00		23.3%

	<u>Present Rate</u>	<u>Pro Forma Present Rate</u>	<u>Proposed Rate</u>	<u>Percent Increase</u>
Marriott	\$17.00	\$19.90	\$24.54/unit	23.3%
CTF	\$17.00	\$11.94	\$14.72/unit	23.3%
Sheraton	\$21.00	\$19.90	\$24.54/unit	23.3%

The revenue increase for the Marriott, CTF and Sheraton hotels totals 23.3 percent (23.3%); however, the rate increases for the individual hotels are different to reflect changes from the existing contractual rates. The monthly rate of \$24.54 per unit establishes a common rate per hotel room for a hotel in operation, and a rate of \$14.72 per unit for a hotel, like CTF, which is not in operation, but has a capacity reservation. Once CTF begins operation, the rate will be increased to provide for the recovery of the operating expenses.

The commission finds the Parties' stipulated rate design in this proceeding to be reasonable.

F.

Automatic Power Cost Adjustment Clause

Applicant sought the establishment of an APCAC to allow for the timely adjustment of rates given fluctuating electricity prices. The Consumer Advocate argued that Applicant should not be allowed to implement an APCAC on the ground that any increase in the cost of electricity would be offset by an increase in revenues based on an expected increase in the number of customers.

During settlement discussions, the Parties agreed that the following procedures will be used by Applicant to calculate the annual adjustment to rates to pass through changes in Applicant's electric costs. Applicant will use the test year kilowatt hour ("kWh") and costs included in its most recent rate case as the basis for each APCAC adjuster until a new base is established in Applicant's next rate case. Until Applicant's next rate case, the base kWh shall be 625,996, and shall use the base rate per kWh of \$0.2615.

In January of each year, Applicant shall calculate the actual rate per kWh for the prior calendar year ("Measurement Year") by dividing the total electric expense by the total kWh for that period to determine the Measurement Year electric expense per kWh. Applicant shall then compare the rate per kWh for the Measurement Year with the base rate per kWh and use the difference to determine the APCAC, which will be added or subtracted from Applicant's then effective rates and applied for

the twelve (12) months beginning February 1 and ending January 31 ("Implementation Year").

The difference in the electric cost per kWh will then be multiplied by the base year kWh, 625,996, and the result divided by the Measurement Year revenues to obtain an adjustment percentage which shall be applied to the then effective rates as follows:

1.	Measurement Year Electricity Cost	\$189,000 estimated
2.	Measurement Year kWh Usage	700,000kWh estimated
3.	Measurement Year Cost per kWh (Line 1 / Line 2)	\$0.2700
4.	Base Year Cost per kWh	\$0.2615
5.	Increase (Decrease) in Cost per kWh (Line 3 - Line 4)	\$0.0085
6.	Base Year kWh	625,996
7.	Cost Increase (Decrease) (Line 5 * Line 6)	\$5,321
8.	Grossed-up for Revenue Taxes @ 1.068205 (Line 7 * 1.068205)	\$5,684
9.	Measurement Year Revenue	\$550,000 estimated
10.	Percent Increase (Decrease) Required (Line 8 / Line 9)	1.0334%

The 1.0334% will be applied to all of the approved rates at the end of January and the resulting rates will be billed during the Implementation Year.

The commission finds the Parties' stipulated APCAC to be reasonable.

F.

Rules and Regulations

The Consumer Advocate proposed numerous changes to Applicant's Rules and Regulations to which Applicant agreed. During settlement discussions, the Parties confirmed that all of the Consumer Advocate's proposed changes were acceptable. The agreed upon changes are set forth in Exhibit CA-105 of the Consumer Advocate's T-1.

The commission finds the changes to Applicant's Rules and Regulations to be reasonable.

G.

Cost of Service Data Study

In its Direct Testimony, the Consumer Advocate recommended that the commission require Applicant to begin gathering and maintaining information to perform a cost of service study for its next rate proceeding. The Consumer Advocate recommended that Applicant conduct a simple analysis that would facilitate determining whether the existing rate structure results in significant cross-class subsidization among Applicant's customer classes. This data could be utilized for other purposes, e.g., it could allow for the development of rates that would encourage water conservation efforts. Applicant has agreed to begin gathering and maintaining information to perform a cost of service study for its next rate proceeding.

The commission finds the Parties' stipulation regarding a cost of service study to be reasonable.

III.

Summary of Findings and Conclusions

Upon its review of the stipulated rate components discussed above, the commission finds and concludes that the Parties' Stipulation achieves a resolution of all outstanding issues in this proceeding. The Stipulation considers the different views of both the Applicant and its customers, and achieves a balance between Applicant's need to operate its business successfully, and the interests and views of its consumers, who have an interest in obtaining wastewater treatment services for their varied uses at reasonable prices. As such, the commission concludes that the Stipulation should be adopted in its entirety. Specifically, the commission finds and concludes the following:

1. The stipulated proposed tariffs, rates, and charges are just and reasonable.

2. The stipulated operating revenues and operating expenses for the Test Year, as set forth in Exhibit A to the Stipulation, and attached to this Decision and Order as Exhibit 1, are reasonable.

3. Based on the Parties' Stipulation, Applicant is entitled to a revenue increase of \$95,678, which is reasonable.

4. The commission's issuance of this final decision and order moots the need to consider issuing an interim decision and order.

IV.

ORDER

THE COMMISSION ORDERS:

1. The Parties' Stipulation, filed on September 26, 2005, is approved in its entirety and incorporated as part of this Decision and Order.

2. Applicant may increase its rates to produce a total annual revenue increase of \$95,678 or approximately 23.3%.

3. Applicant shall file with the commission revised tariff sheets and rate schedules with the applicable issued and effective dates, and reflecting the increases in rates and charges to its schedules and rules and regulations authorized by this Decision and Order. The revised tariff sheets and rate schedules shall be served on the Consumer Advocate and filed with the commission within ten (10) days of the issuance of this Decision and Order. The rate increase shall take effect upon the commission's review and approval of this filing.

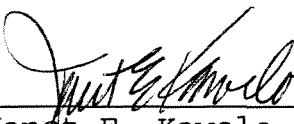
4. The issuance of this final Decision and Order renders moot the need to consider issuing an interim decision and order.

DONE at Honolulu, Hawaii FEB 16 2006.

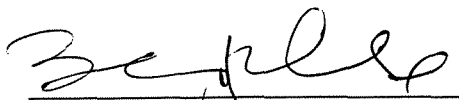
PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

By 
Carlito P. Caliboso, Chairman

By (EXCUSED)
Wayne H. Kimura, Commissioner

By 
Janet E. Kawelo, Commissioner

APPROVED AS TO FORM:


Benedyne S. Stone
Commission Counsel

05-0024.eh.

CERTIFICATE OF SERVICE

I hereby certify that I have this date served a copy of the foregoing Decision and Order No. 22286 upon the following parties, by causing a copy hereof to be mailed, postage prepaid, and properly addressed to each such party.

DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS
DIVISION OF CONSUMER ADVOCACY
P. O. Box 541
Honolulu, HI 96809

MICHAEL LAU, ESQ.
KENT D. MORIHARA, ESQ.
MORIHARA LAU & FONG LLP
Davies Pacific Center
841 Bishop Street, Suite 400
Honolulu, HI 96813

IAN KAGIMOTO
HOH UTILITIES, LLC
4560 Piko Road
P.O. Box 1214
Lawai, HI 96765



Karen Higashi

DATED: FEB 16 2006